

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 NEA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

AGR-20 FEA-02 INT-08 SCI-06 IO-14 DRC-01 /246 W

----- 124074

R 291902Z JAN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7520

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY ABU DHABI

AMEMBASSY KUWAIT

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 01319

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: ENERGY: UK-IRAN OIL-TRADE DEAL

REF: LONDON 1192; LONDON 726; TEHRAN 421; TEHRAN 206

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BEGIN SUMMARY: UK AND IRAN HAVE AGREED TO NIOC

SUPPLYING BRITAIN, USING BP AS AGENT, WITH ADDITIONAL 5 MILLION TONS OF OIL AT \$7.15 A BARREL DURING ONE YEAR PERIOD BEGINNING SECOND QUARTER 1974 IN EXCHANGE FOR 110 MILLION POUNDS OF COMPARATIVELY SCARCE INDUSTRIAL GOODS AND RAW MATERIALS. SEC STATE DTI PETER WALKER EMPHASIZED BRITAIN NOT GOING AGAINST UK VIEWS ON BILATERAL AGREEMENTS SINCE DEAL WILL NOT ADD TO PRICE INSTABILITY. BRITISH FIRMS WILL SUPPLY TEXTILE FIBERS. CHEMICALS, PLASTICS, STEEL, PAPER AND PAPER PRODUCTS. FCO NOTES OIL CONSORTIUM POSITION NOT ADVERSELY AFFECTED BUT CONCEDES THAT ESSENTIALLY BARTER DEALS COULD HAVE ADVERSE PRICE, SUPPLY AND TRADE CONSEQUENCES OVER LONGER TERM. INTENSE PRESSURE TO INCREASE OIL SUPPLIES IMMEDIATELY AT TIME OF SEVERE UK FUEL AND ECONOMIC CRISES IS SAID TO JUSTIFY MAKING THIS SHORT TERM, ONE SHOT DEAL PRIOR TO FEBRUARY 11 ENERGY CONFERENCE IN WASHINGTON. END SUMMARY.

1. BEGIN UNCLASSIFIED: SEC STATE FOR TRADE AND INDUSTRY PETER WALKER ANNOUNCED FOLLOWING MEETING WITH SHAH IN ST. MORITZ THE CONCLUSION OF UK-IRAN AGREEMENT INVOLVING DELIVERY DURING 1974 AND EARLY 1975 OF EXTRA 5 MILLION TONS OF NIOC OIL (IN ADDITION TO NORMAL CONSORTIUM SHIPMENT OF OVER 20 MILLION TONS) AT PRICE JUST OVER \$7.00 A BARREL. AS SEPARATE ARRANGEMENT, BRITISH INDUSTRY HAS UNDERTAKEN TO SUPPLY IRAN WITH 110 MILLION POUNDS WORTH OF INDUSTRIAL GOODS AND RAW MATERIALS OVER NEXT YEAR OR TWO.

2. WALKER EMPHASIZED IN PRESS INTERVIEW THAT IN MAKING DEAL BRITAIN WAS NOT GOING AGAINST US VIEWS SAYING: QUOTE: DR. KISSINGER IS WORRIED THAT BILATERAL AGREEMENTS AS OPPOSED TO MULTILATERAL WILL CAUSE A WORLDWIDE SCRAMBLE FOR OIL. THERE IS NO WORRY OF THAT - THE DEAL WE HAVE MADE WILL DO NOTHING TO ADD TO THE INSTABILITY OF OIL PRICES. END QUOTE.

3. HMG WILL PURCHASE CRUDE DIRECTLY FROM IRAN AND PAY BRITISH PETROLEUM, ACTING AS AGENT, A COMMISSION FOR
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SHIPPING, REFINING AND MARKETING OF OIL. SHIPMENTS WILL BEGIN IN SECOND QUARTER OF 1974 BUT BULK OF DELIVERIES REPORTEDLY WILL BE MADE IN THIRD QUARTER. AS PART OF HMG'S ARRANGEMENTS, SOME OF 5 MILLION TONS ALLEGEDLY WILL GO DIRECTLY TO COMPANIES SUPPLYING GOODS TO IRAN.

4. BRITISH FIRMS SUPPLYING TEXTILE FIBERS, CHEMICALS, PLASTICS, STEEL, PAPER AND PAPER PRODUCTS ARE COURTAULDS, WHICH REPORTEDLY HAS LARGEST CONTRACT FOR

UP TO QUARTER OF TOTAL UK EXPORTS, ICI, BRITISH STEEL CORPORATION, BOWATER AND ALBRIGHT AND WILSON.

5. FINANCIAL TIMES STATES BOWATER CORPORATION CONFIRMED ITS PART OF DEAL TO SUPPLY 20,000 TONS OF NEWSPRINT AND PAPER VALUED AT 4 MILLION POUNDS OVER TWO YEAR PERIOD HAD BEEN CONCLUDED. FT NOTES IRAN ORIGINALLY SOUGHT 30,000 TONS AND THAT BOWATER - ALREADY FACED WITH WORLDWIDE PAPER SHORTAGE WHICH IS AFFECTING UK MARKET - CAME UNDER CONSIDERABLE PRESSURE FROM HMG TO

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ACTION EUR-25

INFO OCT-01 EA-11 NEA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-*2 LAB-06 SIL-01 OMB-01 STR-08

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 7521

INFO AMEMBASSY BONN

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 01319

STATE ALSO FOR T

MAKE DEAL, THE ASSURANCES ABOUT BOWATER'S FUEL SUPPLIES
BEING AN IMPORTANT FACTOR IN COMPANY DECISION TO GO
ALONG. END UNCLASSIFIED.

6. BEGIN CONFIDENTIAL: ENERGY DEPARTMENT SOURCE TELLS
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US AGREED PRICE IS \$7.15 PER BARREL, PLUS BP COMMISSION.
EVEN IF NORMAL COMPANY PROFIT MARGIN OF 40 TO 50 CENTS
A BARREL IS ADDED ON, PRICE PAID IS RIGHT IN LINE WITH
CONSORTIUM EQUITY CRUDE TAX PAID COST OF \$7.12 A
BARREL.

7. FCO SOURCE COMMENTED THAT FINAL DEAL LOOKS BETTER
THAN WHAT SEEMED POSSIBLE TWO WEEKS AGO. HE WAS PLEASED
THAT PRICE WAS RIGHT AND TIME TABLE FOR DELIVERY WOULD
ALLOW IRANIANS TO USE NORMAL NIOC ENTITLEMENT, THEREBY
PRESERVING CONSORTIUM CRUDE INTACT. OUR SOURCE CONCEDES
EXISTENCE OF POTENTIALLY ADVERSE LONG TERM PRICE,
SUPPLY AND OVERALL TRADE CONSEQUENCES OF WHAT ARE
ESSENTIALLY BARTER DEALS. BUT HE NOTES INTENSE PRESSURE
TO INCREASE OIL SUPPLIES IMMEDIATELY AT TIME OF SEVERE
DOMESTIC UK COAL AS WELL AS OIL SHORTAGE RESULTING IN
THREE DAY WORK WEEK JUSTIFIES MAKING THIS SHORT TERM,
ONE TIME DEAL PRIOR TO FEBRUARY 11 ENERGY CONFERENCE
IN WASHINGTON.

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Disposition Date: 28 MAY 2004
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30 JUN 2005

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Type: TE
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